

VZCZCXRO5020
RR RUEHDBU RUEHLN RUEHVK RUEHYG
DE RUEHYE #0255/01 0531244
ZNR UUUUU ZZH
R 221244Z FEB 06
FM AMEMBASSY YEREVAN
TO RUEHC/SECSTATE WASHDC 2489
INFO RUCNCIS/CIS COLLECTIVE
RUEHLMC/MILLENNIUM CHALLENGE CORP

UNCLAS SECTION 01 OF 06 YEREVAN 000255

SIPDIS

SENSITIVE
SIPDIS

STATE FOR EUR/CARC, EUR/ACE, PLEASE PASS USAID

E.O. 12958: N/A
TAGS: [EAID](#) [PGOV](#) [AM](#)
SUBJECT: DEMOCRACY, MCA AND CORRUPTION FOCUS OF USATF
MID-TERM REVIEW

YEREVAN 00000255 001.2 OF 006

Sensitive But Unclassified. Please treat accordingly.

SUMMARY

11. (SBU) Minister of Finance Vardan Khachatryan and Ambassador Evans co-chaired the mid-term review session of the U.S.-Armenia Task Force on Economic Cooperation (USATF) February 17. The USG raised issues linked to the Action Plan of the September 2005 USATF meeting held in Washington and requested updates on items related to governance, corruption, customs, avian influenza and education. The two sides signed the final version of the September 2005 Action Plan (text below). The conversation focused on USG concerns about the GOAM's commitment to free and fair elections and cooperation with the USG plans to support technical assistance programs in this area. The Ambassador made special note of the recent exchange of letters between President Kocharian and MCC CEO Ambassador Danilovich and urged the GOAM to pay special attention to MCA indicators in the "ruling justly" category and match public rhetoric with reforms in the lead-up to the 2007-2008 elections in Armenia. The GOAM did not formally react to the proposed May 2 date for the next USATF meeting in Washington but promised to get back to us with an official response. End Summary.

FREE AND FAIR ELECTIONS (ACTION PLAN ITEM 1)

12. (SBU) During the February 17 mid-term review session of the U.S.-Armenia Task Force on Economic Cooperation, the Ambassador welcomed the GOAM's willingness to work together on improving electoral integrity in Armenia but made it clear to the GOAM that shortcomings in the November 2005 constitutional referendum were still an area of concern (USATF Action Plan Item 1). Ambassador Evans mentioned the recent exchange of letters between President Kocharian and MCC CEO Ambassador Danilovich and urged the GOAM to keep in mind the warnings raised in the exchange in the lead-up to the 2007-2008 elections in Armenia. Khachatryan responded generally to the statement, but said he "understood elections were linked to MCA assistance" and said the GOAM was aware of the USG's plans for election-related technical assistance.

ANTI-CORRUPTION (ACTION PLAN ITEM 2)

13. (SBU) In response to USG queries on the GOAM's Anti-Corruption Action Plan, Khachatryan said that GOAM was in the process of discussing several action plans (at the level of the Prime Minister) and that the GOAM would establish a new governmental body "in the near future" with responsibility for its implementation. Khachatryan promised the GOAM would provide a written response on the status of the GOAM's action plan. The USG side encouraged the GOAM to include civil society in the process of action plan implementation and to give special attention to the media's role in the process.

MCA (ACTION PLAN ITEM 3)

14. (SBU) Both sides discussed the latest developments related to Armenia's Millennium Challenge Account compact and noted plans for a high-level signing ceremony in Washington. In response to the Ambassador's admonition that the MC-Armenia hiring process be transparent, Khachatryan said that the process was well underway and noted that Deputy Minister David Avetissian was managing the MCA process, including hiring and civil society engagement, in the interim period until the GOAM and USG identify an appropriately qualified MC-Armenia CEO. Khachatryan said that the GOAM was working on procedures to elect NGO representatives to Armenia's MCA Board and that, building on its positive experience working with NGOs as part of the Poverty Reduction Strategy Paper (PRSP) process, the GOAM would engage with civil society on MCA implementation.

CUSTOMS PROBLEMS (ACTION PLAN ITEM 18)

15. (SBU) The USG side noted that customs clearance problems were again hindering delivery of USG assistance. The GOAM

YEREVAN 00000255 002.2 OF 006

said it would look into a pending problem with a USAID implementing partner and get back to the Embassy on the reasons for the delay. The Ambassador discussed the provisions of the bilateral agreement that governs customs-related issues and encouraged the GOAM to honor its commitments under the agreement and work to solve the systemic problems that continue to cause customs delays.

AVIAN FLU (ACTION PLAN ITEM 22)

16. (SBU) The GOAM thanked the USG for its engagement on Avian Influenza and agreed with the USG's assessment that confinement of domestic poultry was a good idea in light of the upcoming migratory season. Ministry of Agriculture representative Levon Rukhkyan said that working groups in rural Armenia were meeting to discuss implementation of a nationwide confinement program. Khachatryan said that GOAM plans to acquire AI treatments such as Tamiflu would be a major drain on government resources and made a veiled request for USG assistance in procuring large amounts of Tamiflu. Minister of Health Norayr Davityan outlined GOAM measures underway and gave assurances that the GOAM was giving the problem the attention it deserved.

INTERNET CONNECTIVITY (ACTION PLAN ITEM 24)

17. (SBU) The USG noted ongoing discussions with the GOAM regarding the transition of the Armenia School Connectivity Program (ACSP) and reiterated the need for funds from the GOAM budget to be released as soon as possible to ensure smooth operation of the program. Khachatryan confirmed that the GOAM's 2006 budget contained a line-item for the ACSP and

equipment upgrades but was non-committal on when those funds would be released.

NEXT USATF MEETING

18. (U) The GOAM has not yet reacted to our proposed May 2 date for the next USATF session in Yerevan. The Ambassador raised the issue during the mid-term review session and Khachatryan said his staff would be in touch with the Embassy soon. (Note: Khachatryan has tentative plans to travel to Washington in late March for the MCA compact signing and we understand that he will likely seek an appointment with EUR/ACE to preview the next USATF session during his trip. End Note.)

SIGNED ACTION PLAN

19. (SBU) Per tradition, the two sides signed the September 2006 Action Plan as part of the mid-term review session. The full English text of the signed document is attached below (copies of the signed document have been sent to EUR/ACE Noah Krystel):

U.S.-Armenia Task Force on Economic Cooperation
September 26, 2005 - Washington, D.C.
Action Plan

--1. Free and Fair Elections: The USG outlined plans for its comprehensive package of assistance activities leading-up to the elections of 2007-2008. The GOAM reassured its goal is to help ensure free and fair elections and reassured the USG that the GOAM would do everything in its power to ensure free and fair elections. The GOAM side pointed to the upcoming referendum elections surrounding the constitutional amendments package as an important step.

--2. Anti-corruption: The USG noted that two years have passed since the GOAM adopted its anti-corruption strategy and suggested specific measures the GOAM could take to assure the public and international community of its commitment to this strategy. The U.S. side noted that while there have been some positive steps (especially in the areas of business-related anti-corruption activities), there has been a general lack of energy in this area. The USG stated that, in most countries where there has been significant progress in anti-corruption, there has been a strong message from the highest levels of government that corruption would not be tolerated. The USG also suggested that an independent

YEREVAN 00000255 003.2 OF 006

assessment of implementation of the GOAM's anti-corruption strategy would indicate the most pressing areas where action is needed. The GOAM said it would present these suggestions to the anti-corruption council and agreed that accountability to the public of the last two years would be an important step for the GOAM. The USG encouraged the GOAM side to consult with USAID as it moved ahead on its front.

--3. Millennium Challenge Account: The USG and GOAM side noted considerable progress on the technical aspects of the Millennium Challenge Account compact proposal negotiation process. The U.S. side reminded that eligibility for the Millennium Challenge Account process was contingent upon Armenia's performance on sixteen indicators relative to other candidate countries. The U.S. applauded the GOAM on its increased allocations in the areas of health and education. MCC representatives made special mention, however, that early indications suggest that declines in indicator areas of civil liberties, political rights and voice and accountability were a concern for the USG. The U.S. side reminded the GOAM that U.S. legislative provisions require Eligible Countries to maintain policy performance on the indicator and allow

suspension -- or even termination -- of a country's MCA eligibility or assistance if performance deteriorates. The USG said it would provide the GOAM with a written description of specific concerns with regard to MCC indicators and suggested that the conduct of the upcoming referendum is a critical event.

--4. Fiscal Policy: The USG noted the apparent success of GOAM with the publication of the country's top taxpayers and called this move an important step toward increased transparency. The GOAM encouraged USAID to coordinate with the IMF and World Bank as it embarks on its analyses in the area of customs administration. With so much dynamism in the construction sector, the USG encouraged the GOAM to continue looking at ways to improve tax collection schemes related to construction and methods and small-and-medium-sized enterprises.

--5. Financial and Banking Sectors: The sides noticed positive technical cooperation in the areas of banking policy and administration and capital markets. The GOAM noted pending legislation that would better regulate the sector. The sides raised concerns, however, that certain uneven concentrations of business activity had emerged in the sector and could threaten future growth. Both sides encouraged more transparency in the sector and previewed future cooperation to address such issues as: remittances, auditing, bank supervision and inflation targets.

--6. Tax and Customs Administration: The GOAM noted the leadership of President Kocharian when he called on tax and customs authorities early in 2005 to improve procedures in these areas. USAID noted its new programs in these areas and invited the GOAM to a future dialogue to discuss in greater detail the parameters and goals of these programs.

--7. Encouraging Foreign Investment: The USG emphasized the role the GOAM must take to help promote foreign investment in Armenia. The Department of Commerce outlined federal programs designed to promote with American audiences the possibilities for investment in Armenia. The U.S. side noted the announced opening of a California State trade representation in Armenia as well as the October 2005 American Chamber of Commerce (AmCham) regional conference. The GOAM noted recent steps it has taken to limit administrative barriers to foreign direct investment, its plans to establish a permanent trade attach who will operate as part of the Armenian Embassy in Washington, and plans to establish a trade promotion office on both U.S. coasts.

--8. Small-and-Medium-Size Enterprise (SME) Development: The USG encouraged the GOAM to continue in its efforts to reduce administrative barriers to SME development. USAID outlined the recently unveiled competitiveness program that will likely concentrate on the information technology and tourism sectors to identify barriers to SME development. The GOAM said that plans for the 2006 budget envisage increases in SME development assistance and called for future collaboration with USG agencies (USAID, Peace Corps and others) aimed at stimulating SME activity in Armenia.

--9. VAT refund administration: The USG noted recent improvements in GOAM's VAT refund regime but conveyed continued concerns of U.S. companies regarding the existing stock of VAT arrears (specifically the case of the Hotel Armenia Marriott). The GOAM said that there were legislative

YEREVAN 00000255 004.2 OF 006

and judicial concerns related to this case and both sides noted that the Court of Economic Disputes would hold hearings on the case in September 2005.

--10. WTO compliance: The USTR reiterated the agency's willingness to discuss WTO compliance issues in detail at a future date and suggested that the sides agree to convene the next meeting of the Trade and Investment Working Group once a

full agenda of issues was identified.

--11. Intellectual Property Rights: The USG said it was encouraged by recent police activity aimed at increasing enforcement of intellectual property rights and noted USG assistance programming in this area. The GOAM said pending legislation mandating conformity with TRIPS principles would enhance effectiveness in this area. The GOAM encouraged the USG to increase police training in this area.

--12. Support for the Judiciary: Both sides agreed that support for the judiciary should include greater emphasis on appropriate salary levels for judges, increased training for judges and lawyers, and improved management of the court system. The GOAM said it was considering an increase in judges' salaries in the 2007 budget. The GOAM said it expected to continue its cooperation with USG (USAID and other USG agencies) to improve the legal framework governing the judiciary.

--13. Resident Legal Advisor: The USG reminded the GOAM that the Department of Justice would send a Resident Legal Advisor to Armenia later this year in an effort to assist with policy reforms and technical assistance in this area (areas of expertise will include money laundering, trafficking in persons, criminal procedure, corruption, legal management issues, ethics et al.).

--14. Education and Science: The sides discussed the recent Science Study commissioned by the USG and pointed to the document as a potential roadmap for cooperation in these areas. The USG reiterated the results of recent research by the U.S. Science Fellow that pointed to potentially competitive sectors where scientific development may lead to business applications. The sides agreed to continue its dialogue on cooperation in the fields of science and education and the GOAM committed to organizing a structured dialogue on these issues. The GOAM announced that it had developed a 2005-2010 strategy for scientific innovation and would invite the USG to participate in future discussions of this program and all aspects related to science, including consultations on possible future technical assistance.

--15. Trafficking in Persons: The GOAM outlined its efforts to combat trafficking and the USG requested a copy of the statistics presented by the GOAM side. The GOAM expressed a need to strengthen capacities for the prosecution of trafficking and requested USAID to discuss with the Prosecutor General's office their specific needs to combat trafficking. The USG encouraged the GOAM to move beyond discussion and take concrete steps to combat this problem and requested that the GOAM to provide a list of detailed recommendations to target specific areas where actions were lacking.

--16. Money Laundering: The GOAM requested assistance from the USG for the digitization of its exchange database (as part of its participation in the Egmont Group). The USG encouraged the GOAM to ensure that the Financial Monitoring Center at the Central Bank would be fully operational in the very near future. The USG also underlined the need to amend the regulatory framework in the Armenian law on money laundering

--17. Monetization Programs: The USDA indicated that two of the four food aid proposals it had received for the 2006 Food for Progress program were under consideration. It also reminded that in 2006 Armenia would be part of the USDA's Export Credit Guarantee Program to provide high-quality agricultural commodities to Armenia through commercial channels.

--18. Customs Clearance Problems: Ambassador Evans reported on his meeting with State Customs Committee Chairman Avetissian and said that there were no pending, unresolved customs problems involving USG assistance shipments. The USG underscored the importance of abiding by the bilateral Memorandum of Understanding regarding customs shipment

procedures between the two countries.

YEREVAN 00000255 005.2 OF 006

--19. Armenian Nuclear Power Plant Decommissioning Status: The USG stated its view that Armenia should work to close ANPP as early as possible as the plant does not fully satisfy modern safety-related technical standards. The GOAM stated its view of the importance of the plant to Armenia's energy security and said that, in accordance with the document "Energy Development Strategy in the Context of the Armenian Economy," approved by the GOAM, the mid-term objective following eventual decommissioning of the ANPP would be the adequate production of energy by using thermal or other renewable sources. The long-term objective according to the document would be the construction of a new nuclear power-generating unit. The GOAM further said they hoped to have a concrete financial plan in the near future to cover the substantial costs of ANPP closure. Building on on-going discussions about decommissioning, including the conference organized by PA Consulting Group in Yerevan in June 2005, the USG indicated that it was prepared to assist Armenia in planning for the closure and decommissioning of ANPP, and further to provide near-term assistance to improve the operational safety of the plant. The GOAM and USG agree that active discussions should be held in the near future to discuss these matters further. The GOAM said it would likely host a donor conference on this subject in the near future, with the assistance of the EU, to raise funds to build energy production capabilities to replace the ANPP in accordance with the Energy Sector Development Program, as well as to develop energy networks and energy infrastructure aimed at regional integration.

--20. Privatization of Energy/Telecom Sector Assets: The USG expressed concerns regarding the announced sale of Armenia's national electric distribution network (ENA) and the process employed in awarding a second mobile telephone license to a Lebanese business man earlier this year. In each case, the USG stated that the transaction to date had fallen short of international standards for transparency. The USG further noted that press reports questioned whether appropriate attention was being paid to consumer interests. The GOAM acknowledged the importance of both transparency and attention to the interests of consumers in reviewing or structuring such transactions. The GOAM indicated that it did not have available detailed information on the status of the energy sector transaction to permit full substantive discussion of it at the meeting. (Note from GOAM: To make the sale of Armenia's national electric distribution network -- ENA -- consistent with international standards of transparency, the GOAM, by Decree No. 1560-A on Midland Resource Holding Lt'd Invitation for Bids for 100 percent Sale of ENA's Shares, dated September 15, 2005, assigned the Minister of Energy, Minister of Justice and Minister of Finance and Economy to ensure maximum transparency and protection of consumer interests in the event of ENA's sale.)

--21. U.S. Agricultural Assistance: The GOAM requested assistance from USAID and USDA to help develop food safety regulations affecting food safety and food exports. The Ministry of Finance requested assistance in areas of taxation in the agricultural sector and financial issues related to budgetary subsidies for farmers.

--22. Avian Flu: The U.S. Government expressed the importance of continued cooperation with the GOAM to combat the problem of Avian flu and thanked the relevant ministries for their assistance in this matter.

--23. Water Management and Irrigation: The GOAM expressed the need for a comprehensive study of underground water resource management and requested further technical assistance in the area of water management in Armenia. The sides agreed that USG agencies involved in water-related activities (the entire spectrum of water-related assistance,

including irrigation, policy, potable water resources, etc.) should meet with GOAM agencies to discuss water management issues in general in advance of the next USATF meeting.

--24. School Connectivity: The GOAM reassured the USG side regarding its commitment to fully fund the school connectivity program and said it allocated adequate funds within the State's 2006 budget to maintain this program. The USG asked for both sides to clarify this question among the relevant offices (USG and GOAM) in Yerevan.

SIGNED:

For the Government of the United States of America:

/S/

YEREVAN 00000255 006.2 OF 006

John Evans, Ambassador

For the Government of the Republic of Armenia:

/S/

Vardan Khachatryan, Minister of Finance and Economy
EVANS